

Air Force Materiel Command



AFMC Top Ten Training

How to Determine and Document A Fair and Reasonable Price

(2 Continuous Learning Points)



May 2008



Outline

- **Introduction**
- **Policy/Guidance References**
- **Problems/Issues**
- **Application**
- **Summary**



Introduction

- Contracting Officers (COs) must purchase supplies and services from responsible sources at fair and reasonable prices
- COs must not obtain more information than is necessary in establishing the reasonableness of the offered price
- COs should use all means available to determine a price is fair and reasonable before requesting cost or pricing data
- COs must price each contract separately and independently



Introduction (Cont'd)

- **What Is a “Fair and Reasonable Price” Determination?**
 - Fair and Reasonable not defined by FAR
 - Reflects fair market value or total allowable cost of performance by a well-managed, responsible contractor plus reasonable profit
 - Realistic in contractor’s ability to satisfy terms
 - Price that a prudent buyer would pay considering market conditions, requirements alternatives, and non-price factors
 - Requires a great deal of judgment of the data or resources obtained by the CO
 - FAR 31.201-3: A cost is reasonable if, in its nature and amount, it does not exceed that which would be incurred by a prudent person in the conduct of a competitive business



Introduction (Cont'd)

- **How Do We Do It?**
 - Methods to determine Fair and Reasonable Price
 - Adequate Price Competition (APC)
 - Price Analysis
 - Cost Analysis
 - Price Set by Law (Utilities)
 - Cost Realism Analysis



Introduction (Cont'd)

- **Why Must We Document a Fair and Reasonable Price?**
 - FAR 15.406-3(a)(7) & (11) tell us the CO shall document in the contract file the principal elements of the negotiated agreement. The documentation shall include the following:
 - (7) ... Where the determination of price reasonableness is based on cost analysis, the summary shall address each major cost element. When determination of price reasonableness is based on price analysis, the summary shall include the source and type of data used to support the determination
 - (11) Documentation of fair and reasonable pricing



Introduction (Cont'd)

- It's the record of the entire negotiation process for your acquisition which other people will read to find out what you did
- It identifies contractor data that were or were not relied upon by the Government
- It is a permanent file record
 - **See FAR 4.803 Contents of Contract Files**



Introduction (Cont'd)

- **Who Reads It?**

- Contracting Officer/Management
- Administrative Contracting Officer
- DCAA
- IG/GAO/AF Auditor
- Attorneys (Government & Contractor)
- Follow-on Contract Negotiators, COs, Price Analysts
- Terminating Contracting Officer
- Congressional Staffers



Policy/Guidance References

- **SAF/AQC Memo Access to Records with Exclusive Distributors/Dealers, dated 29 Nov 07**
- **DPAP Memo Determining Fair and Reasonable Prices, dated 8 Jun 07**
- **Contract Pricing Reference Guides**
- **Guide to Writing a Good Price Negotiation Memorandum (PNM) or Price Competition Memorandum (PCM), dated May 2007**
- **Integrated Process Team (IPT) Price Negotiation and Agreement Guide, dated May 2004**



Policy/Guidance References (cont'd)

- **FAR Part 15.4 Contract Pricing**
- **DFARS PGI 215.4 Contract Pricing**
- **AFFARS MP 5315.403-1, Prohibition on Obtaining Cost or Pricing Data**
- **AFFARS IG 5315.406-3, Price Negotiation Memorandum Checklist**
- **AFMCFARS IG 5315.404-3, Pricing of Subcontract Proposals**
- **AFMCFARS 5315.406-3, Documenting the Negotiation**



What is Price Analysis?

- Contract Pricing Reference Guide, Vol 3, Chap 12
- The process of examining and evaluating a proposed price to determine if it is fair and reasonable, without evaluating its separate cost elements and profit
 - CO shall use price analysis when cost or pricing data is not required
 - The CO must be satisfied that the price is fair and reasonable
 - The file must be documented with rationale used in the pricing decision



Price Analysis (cont'd)

- Evaluating Price Reasonableness with Price Analysis
 - Price analysis always involves the CO who selects the method of comparison for determining fair and reasonable price, such as:
 - Prices received in response to a solicitation
 - Commercial prices such as published price lists or rebates
 - Previously proposed prices and contract prices for the same or similar end items and comparison and the reasonableness of the proposed prices
 - Parametric estimates or estimates developed using rough yardsticks
 - Independent Government Estimates
 - Market research for same or similar items



Price Reasonableness Decision

- **Price analysis is a subjective evaluation. For any given procurement, different bases for price analysis may give you a different view of price reasonableness. Even given the same information, different buyers/contracting officers might make different decisions about price reasonableness.**
 - It is the contracting officer who must be satisfied that the price is fair and reasonable
- **This is one reason that documentation is so important**



Cost Analysis

- **Contract Pricing Reference Guide Vol 3, Chap 12**
- **What is Cost Analysis?**
 - The review and evaluation of separate cost elements and proposed profit/fee of:
 - An offeror's or contractor's cost or pricing data or information other than cost or pricing data
 - Judgmental factors applied in projecting from the data to the estimated costs
- **Use cost analysis**
 - When you require a contractor to submit cost or pricing data
 - When you require a contractor to submit cost information other than cost or pricing data to support price reasonableness or cost realism



What is Cost Realism?

- Contract Pricing Reference Guide, Vol 3, Chap 12
- The process of independently reviewing and evaluating specific elements of each offeror's proposed cost estimate to determine whether the estimated proposed cost elements:
 - Are realistic for the work to be performed
 - Reflect a clear understanding of the requirements
 - Are consistent with the unique methods of performance and materials described in the offeror's technical proposal



When to use Cost Realism

- **Contract Pricing Reference Guide, Vol 3, Chap 12**
- Perform a cost realism analysis of each cost-reimbursement contract offer to determine the probable cost of contract performance and use that estimate in your evaluation of the best value to the Government
 - The probable cost related to the cost-reimbursement contract offer may differ substantially from the proposed cost
 - The probable cost estimate should reflect your best estimate of any contract that is likely to result from an offeror's proposal
 - Determine probable cost for each offer by adjusting the proposed cost to reflect any additions or reductions in cost elements to realistic levels based on the results of the cost realism analysis



Integrated Product Team (IPT) Pricing

- An alternative method or process for pricing and negotiating sole source acquisitions
 - The Government and Contractor team together to develop a proposal and negotiate a contract
- Why use IPT Pricing?
 - All parties will better understand issues
 - Avoid lengthy, sometimes harsh negotiations by mutually resolving disagreements regarding work scope, contract terms & conditions, and cost/pricing issues early in the negotiation process
 - **All stakeholders should be working participants and working to the same end**

IPT Price Negotiation and Agreement Guide, dated May 2004



Problems/Issues

- **Open Market vs GSA Schedule Prices**
- **Adequate Price Competition vs Sole Source**
- **Wage Determinations**
- **Commercial Items**
- **Price Comparisons**
- **Subcontractor Pricing**
- **Determining Fair and Reasonable for Exclusive Distributors**
- **Rates Recommended vs Negotiated (working with DCAA)**
- **Post-Award Audits (Defective Pricing)**



Open Market vs GSA Schedule Prices

- **Verify GSA schedule prices**
- **Verify Items being requested are on GSA schedule**
- **Expiration date of GSA schedule**
- **Open market items and GSA items on same order if open market items are minimal**
- **Advertise as GSA and items are open market Must re-accomplish using open market procedures**
- **GSA has determined prices to be fair and reasonable**
 - However, CO should seek additional discounts or price reductions before placing orders (See FAR 8.404(d) and 8.405-4)
- **Adding clauses may impact cost and must be addressed in the pricing memorandum**



Adequate Price Competition (APC)

~~vs Sole Source~~

- **Can APC exist with only one submitted offer?**
 - Yes, it can exist with only one offer *IF*:
 - There is reasonable expectation that two or more responsible offerors would submit offers
 - The CO can reasonably conclude that the offer was submitted with the expectation of competition
 - That there was at least one other offeror that was capable of submitting a meaningful offer
 - Has no other reason to believe that other potential offerors did not intend to submit an offer
 - Market Research is also performed (*Notes provide more info*)
 - Documentation must support that circumstances support that competition really exists.
 - One offeror situations may be subject to oversight by IG and others.



Commercial Items

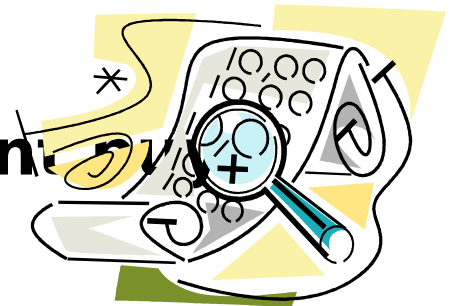
- **CO makes the final decision, but the pricing team should provide input**
 - Due diligence
 - Documentation of decision
 - Base decision on facts and rationale in appropriate detail
 - Myths
 - Commercial prices are not negotiable
 - Catalog prices are assumed fair and reasonable
 - All GSA supply/services orders are commercial
 - Facts
 - Most commercial price/terms can be negotiated
 - Market research can provide basis for reasonable prices
 - Contractors must provide the CO adequate data to determine a fair and reasonable price (e.g. sales history data)
 - All supply/service orders placed under the GSA Schedules Program are commercial. Supply orders placed under other GSA programs may be commercial



Compare to Previous Prices

Price Analysis includes:

- **Validating the basis of a prior determination of fair and reasonable price**
 - Competitive, sole source, commercial?
 - Prior award date
 - Quantity
 - Price
- **Analyzing any variances for current**
 - Escalation, quantity, etc





Compare to Previous Prices (Cont'd)

- **Aircraft Spare Part**

- Price History:

- 2000 \$25,100 each for 10 (based on competition)
 - 2002 \$26,500 each for 6 (based on price analysis of previous price)
 - 2004 \$26,900 each for 8 (based on price analysis of previous price)
 - 2005 \$27,500 each for 5 (based on price analysis of previous price)
 - 2007 \$29,000 each for 6

- **Is the current proposed price reasonable?**
- **What is the basis for price reasonableness?**



Compare to Previous Prices (Cont'd)

- **If the basis for price reasonableness was the 2005 price of \$27,500, that is an invalid comparison**
 - A prior price which was determined reasonable solely by comparison to another prior price is NOT a valid comparison base unless additional price analysis is performed to ensure that it is still a valid basis for comparison
- **To determine reasonableness of \$29,000 current proposal, must use other methods**
 - Could use the 2000 price of \$25,100, if other factors such as escalation, quantity, etc. can be quantified to bridge the difference between the two prices
 - However, be sure to address the 2005 price in documentation
- **Always be aware of the basis of previous prices!**
- **In this case, the proposed price was reasonable**
- **Be sure to document the basis for price reasonableness**



Compare to Previous Prices (Cont'd)

- **Be Aware of:**

- New item vs. overhaul with same National Stock Number

Stock Number	2006 Unit Price Amount	2007 Unit Price Amount
0003	\$25,000	\$4080
0004	\$25,000	\$288

- Urgent vs. normal delivery schedule
- Technology changes
- Configuration changes
- Terms and conditions
- Manufacturing process changes
- Market conditions



Subcontractor Pricing

- **Ensure subcontractor costs are evaluated**
- **Addressed in Mar 2008 training, but continues to be an issue**
- **Incumbent upon PCOs to ensure subcontractor analysis is properly carried out**
 - Postaward audits may reveal issues with agreement between a prime contractor and subcontractor that may be relevant to determining defective pricing of the subcontract
- **Prime and Subcontractors are required to provide sales history data if requested by the CO**



SAF/AQC Memo 29 Nov 07

- **Access to Records with Exclusive Distributors/Dealers**
 - Problems with determining price fair and reasonable from Exclusive Distributors by Original Equipment Manufacturers when TINA does not apply
 - Exclusive Distributors/Dealers do not have direct access to costs of products provided by Original Equipment Manufacturers
 - FAR 15.402 states that Contracting Officers must obtain cost information, without certification when there is no other basis for determining price fair and reasonable



Recommended Vs Negotiated Rates

(Working with DCAA)

- When cost or pricing data are required, contractors are required to describe any forward pricing rate agreements (FPRAs) in each specific pricing proposal to which the rates apply and to identify the latest cost or pricing data already submitted in accordance with the agreement
- Contracting officers will use FPRA rates as bases for pricing all contracts, modifications, and other contractual actions to be performed during the period covered by the agreement



Post Award Audits (Defective Pricing)

- To preserve Government rights under defective pricing, must document date of negotiations, what data was relied upon and how it impacted price
- The Government is entitled to a price reduction to eliminate any significant overpricing related to the defective data. That reduction must consider increases in both cost and profit or related to the defective data
- Any defective pricing monies returned goes to the US Treasury (not the original purchasing organization)



Post Award Audits (Defective Pricing) (Cont'd)

**United States Court of Appeals for the Federal Circuit
05-1393**

**MICHAEL W. WYNNE, Secretary of the Air Force,
Appellant,**

v.

**UNITED TECHNOLOGIES CORPORATION,
Appellee.**

DECIDED: August 28, 2006

The Secretary of the Air Force (Air Force) appeals from the reconsideration decision of the Armed Services Board of Contract Appeals (Board) denying the Air Force's claim for a contract price reduction for a six-year, multi-billion dollar contract with United Technologies Corporation, Pratt & Whitney (UTech).

TINA requires that a contract price be "adjusted to exclude any significant sums by which it may be determined . . . that such price was increased because the contractor . . . furnished cost or pricing data which . . . was inaccurate, incomplete, or noncurrent." § 2306(f)(2). In other words, the government will be awarded a contract price adjustment when the government proves that a contractor furnished defective cost or pricing data and "the [Government] relied on the overstated costs to its detriment."

The Air Force claims that UTech furnished defective cost or pricing data in connection with both its initial price proposal and its Best and Final Offer (BAFO) for the contract, such that the Air Force was entitled to a contract price reduction under the Truth in Negotiations Act (TINA), 10 U.S.C. § 2306(f) (1983).¹ Because we agree with the Board that the Air Force did not establish that it relied upon the defective cost or pricing data to its detriment, we affirm



Types of Documentation

- **Price Negotiation Memorandum (PNM)**
 - Sole source or single source competition that is not considered competition i.e. becomes sole source
 - Preliminary PNM
 - Final PNM
- **Price Competition Memorandum (PCM)**
 - Adequate price competition
- **Specialized PNM Format**
 - Use between micro-purchase and simplified acquisition procedures thresholds
 - May be used between simplified acquisition procedures and the TINA thresholds and for commercial acquisitions less than \$5.5M
- **AFMC FARS 5315.406-3 Documenting the Negotiation has links to a sample PNM template, and the AFMC PNM Guide**



Price Negotiation Memorandum Checklist

Price Negotiation Memorandum Checklist IG5315.406-3

October 2006
4 pages

Price Negotiation Memorandum Checklist				
PNM CONTENTS	PRE	POST	NA	SEE NOTES
SUBJECT				
Contractor name, division or group and location				
Contract or RFP Number (include modification number)				
Item or service acquired				
Case number				
INTRODUCTORY SUMMARY				
Settlement date				
Type of contractual action (<i>new contract, SA, etc.</i>)				
Tabular summary of cost, COM, profit/fee and price				
(1) Proposed and objective				
(2) Negotiated				
(3) Separate summaries for options, etc.				
(4) Fee or profit rate for each position				
(5) Award fee pool for each position				
(6) Share ratios for each position				
(7) Min/Max fee for each position				
(8) Ceiling price and percentage for each position				
(9) Type of contract for each position				
DETAILS				
Item or service identification				
(1) Types and quantities				
(2) Previous buys of the same or similar items				
(a) When they were bought				
(b) Quantity				
(c) Contract type				
(d) Prior unit or total prices (<i>target/finals if applicable and available; document separately recurring and non-recurring costs</i>)				
(e) Current unit or CLIN prices (<i>may be attached</i>) with name of item, NSN, part number, quantities, etc., as applicable (<i>document separately recurring/ non-recurring costs</i>)				
(f) Summary explanation of significant differences between the instant buy and most recent historical price(s)				



Price Competition Memorandum Checklist

Price Competition Memorandum Checklist

Guide to Writing a Good
PNM or PCM
May 2007
2 pages

PRICE COMPETITION MEMORANDUM CHECKLIST			
PCM CONTENTS CHECKLIST	YES	NO	N/A
1. SUBJECT			
a. Contractor name, division or group and location			
b. Contract or RFP number			
c. Item or service acquired			
d. Fiscal year/funds			
e. Case number			
2. INTRODUCTORY SUMMARY			
a. Contractor and proposal selected for award and date			
b. Offerors			
c. Tabular Summary of: proposed price, most probable cost (MPC)/government estimate, and final proposal revision			
Cost/target cost			
Cost of money			
(Target) Profit/fee			
Total			
(Target) Profit/fee %			
Minimum/maximum fee (\$ and %)			
CPAF (base/award fee) (\$ and %)			
Incentive/share ratio			
Ceiling price (\$ and %)			
Contract type			
d. Description of how the share ratios and ceilings were determined			
3. PARTICULARS			
a. Description of item or services being procured			
b. Explain method used to establish line item or unit prices			
c. Clearance authority			
(1) Approval authority			
(2) Approval date, sessions, and participants			
d. Personnel: List names, title, organization and telephone number of participants in price analysis/realism discussions			



Specialized PNM Format

Specialized Price Negotiation Memorandum Format

Guide to Writing a Good PNM or PCM May 2007 1 page

Specialized Price Negotiation Memorandum Format				
See PNM/PCM Guide, Para 1.2c For use between Micro threshold and SAP thresholds; replaces AFMC Forms 829 and 829A				
Contractor Name				
Division				
Street Address				
City, State, Zip				
Contract Number			Date of Negotiations	
Contract Type			Schedule	
Item Description				
Negotiation Participants				
		Name	Position	Organization
Contractor	1			
	2			
	3			
Government	1			
	2			
	3			
Summarized Cost/Price Information				
	Proposed	Objective	Negotiated	
Cost				
Profit				
Price				
Unit Prices				
Noun	Part #	Proposed	Objective	Negotiated
Basis				
Catalog/Market Price: Document the source of information, similarity, verification, and discounting.				
Historical Comparison: Document prior contract number, basis of prior determination of fair and reasonable e.g. competition, prior award date, quantity, and price. Document and address adjustments to the current buy.				
Other: Document any other basis to include government estimate, formula pricing agreement, CERs, GSA, prices set by law, or value review.				
Miscellaneous				
Document relevant cost accounting information as appropriate e.g. CAS violations, disclosure statement adequacy, and status of contractor systems. Document use of advisory reports or field information plus attachments.				
All information provided by the contractor was relied upon as a basis of determining the Government Objective and as a basis for settlement of this acquisition. Based upon the representations contained in this document the price is considered Fair and Reasonable.				
Signatures				
Contract Negotiator: Office, Signature, Date			Contracting Officer: Office, Signature, Date	



Writing a Good Pricing Memorandum

- Guide to Writing a Good Price Negotiation Memorandum (PNM) or Price Competition Memorandum (PCM),
May 2007
- The PNM is the required formal document that reflects the price agreement for all negotiated awards not based on adequate price competition
 - Memorandum should flow from proposal to objective and to final negotiated cost
 - Memorandum is a historical document that captures final price paid, factual data relied upon, and the judgments that formed the basis of the objective and subsequent agreement on price
 - If cost and pricing data is required, the PNM must identify any data not relied upon, used or determined to be inaccurate, incomplete or not current
- The Pricing Memorandum is a stand-alone document



Writing a Good Pricing Memorandum (cont'd)

- For acquisitions that are determined to meet the adequate price competition requirements, a PCM is the required formal document
- Regardless of the type of pricing memorandum used
 - Document must include sufficient detail to reflect price analysis or cost analysis and negotiated positions that constitute a fair and reasonable price
 - Document must be clear, complete and accurate
 - Document becomes a permanent part of the contract file
- If using IPT, it is not acceptable to accept the contractor's proposal as an agreed to representation of the acquisition serving as the PNM documentation



Compare to Previous Prices

- **Document details of analysis**
- A write up from an inspector may state:
When both a price and cost analysis was performed, the PNM failed to describe how the price analysis results were used in determining that the price was fair and reasonable

FAR 15.404-1(a)(2) establishes the mandatory requirement for price analysis when cost or pricing data is not required. When cost or pricing data is required, it is ideal to employ both cost and price analysis techniques in conjunction, thereby obtaining an authentication of the overall price as stated above. FAR 15.404-1(a)(3) states price analysis should be used to verify that the overall price offered is fair and reasonable.



Compare to Previous Prices (cont'd)

- **For example:**
 - Escalation used
 - Time, rate, etc
 - What was the basis and currency of previous price?
 - Competition, cost analysis, etc
 - Similarity of items
 - Any difference affecting price
 - Explain differences or adjustments
 - Quantify price differences



Unit Compliance Inspections/ Staff Assistance Visits

- Many PCMs/PARs failed to make a positive statement that the offered price selected is fair and reasonable based on adequate price competition
- A price was agreed to that was over 35% above the objective. The PNM did not adequately justify why the negotiated price was fair and reasonable or indicate that the significant differences had been elevated to higher management
 - What was the clearance process?
 - If one offeror APC, was the determination of Adequate Price Competition approved at a level above the CO?
 - THE PRICE MUST STILL BE DETERMINED TO BE REASONABLE

Based on the above, the price was determined fair and reasonable



Unit Compliance Inspections/ Staff Assistance Visits (Cont'd)

- Lack of price analysis when previous buys were mentioned in the PNM
- PNMs lacked a significant explanation of the basis of individual cost elements for both the contractor proposed and AFO amounts, particularly in the direct material and subcontract cost elements
 - This is true even if using the IPT pricing process to determine what occurred during the discussions and follow-on agreements
- It's critical for the PNM to describe “how” an individual element of cost is determined (e.g. engineering estimates, historical data, parametric estimates, vendor quotes, forward pricing rates, etc)



Unit Compliance Inspections/ Staff Assistance Visits (Cont'd)

- When both a price and cost analysis was performed, PNM failed to describe how price analysis results were used in determining the price was fair and reasonable
- There were instances when a price analysis was performed, but did not yield useable results. But PNM did not describe why the price analysis results were not used



Applications

- **Fair and Reasonable Prices**
 - Price Analysis
 - Proposal Analysis
 - Cost Analysis
 - Cost Realism
 - Technical Analysis
- **Simple example of tying determination and documentation together**
 - “I have a contract that will be commercial over \$2M and since there will not be profit proposed (commercial) there will be no way to do WGL. What do I do?”



Price Analysis - Applications (Cont'd)

- **Price Analysis**
 - Aircraft Shelter
 - 3 proposals received from responsible, responsive offerors
 - \$ 9.5M
 - \$10.0M
 - \$10.3M
 - FFP type contract
- **Based on price analysis, would you consider the \$9.5 Million price fair and reasonable?**



Price Analysis - Applications (Cont'd)

- **Or the better question, would you consider all of the proposed prices fair and reasonable?**
 - YES, if circumstances meet FAR definition of adequate price competition
 - What documentation is required?



Determine whether a cost or pricing data exception applies to the contracting situation:

- Adequate price competition;
- Price set by law or regulation;
- Commercial item; or
- Waiver

3.2

Exception applies?

Yes

Determine if information other than cost or pricing data is needed from the offeror/contractor to determine price reasonableness or cost realism.

3.3

Require submission of information other than cost or pricing data.

Yes

Needed?

No

Rely on competition and/or information obtained from market research for contract pricing.

Determine if cost or pricing data are needed to determine price reasonableness.

3.1

Under the cost or pricing data threshold?

Yes

Over simplified acquisition threshold?

Yes

HCA Authorized?

Yes

No

Require offeror/contractor submission of cost or pricing data.



Proposal Analysis Steps

Actions up to \$XM - Buyer/PCO Tasks (local thresholds set forth at AFMCFARS 5315.404-2)	Actions > \$XM
1. Examine Proposal for Compliance with FAR Table 15-2 and the RFP	Price Analyst
2. Review Contractor's "Groundrules and Assumptions" and/or "Terms and Conditions"	Buyer/PCO & Price Analyst
3. Request Field Pricing Support (DCAA Audit / DCMA Pricing & Tech Supt if needed)	Price Analyst
4. Request Technical Evaluation from Program Office	Buyer/PCO
5. Build Pricing Model	Price Analyst
6. Begin Preparing a Preliminary Price Negotiation Memorandum (PPNM)	Price Analyst



Proposal Analysis Steps

Actions up to \$XM Buyer/PCO Tasks	> \$XM
8. Review Technical Evaluation for adequacy	Buyer/PCO & Price Analyst
9. Review Audit results	Buyer/PCO & Price Analyst
10. Incorporate Tech & Audit into Pricing Model	Price Analyst
11. Perform Weighted Guidelines Analysis (unless CPAF)	Price Analyst
12. Final Price Analysis	Price Analyst
13. Prepare Business Clearance Pricing Charts	Price Analyst
14. Complete PPNM	Price Analyst
15. Prepare Gov't Offer Position for	Price Analyst



FAR Table 15-2 (FAR 15.408(m))

- **FAR Table 15-2 requires:**
 - **A Proposal Index of all Cost or Pricing Data**
 - **Cost Element Breakdowns for each CLIN consistent with contractor's cost accounting system**
 - **Total Summaries by Cost Element**
 - **Identification of Incurred Costs (Actuals)**
 - **Submission of FPRA if negotiated**
 - **Proposed use of Govt Furnished Property**
 - **If subject to Cost Accounting Standards (CAS), a statement on adequacy of Disclosure Statement**
 - **Identification of any CAS non-compliances**
 - ***After agreement on price* - A Certificate of Current Cost or Pricing Data**



FAR Table 15-2 - Cost Elements

- **Material - Contractor must provide:**
 - **A consolidated priced summary of individual material quantities (Bill of Material) identifying the item, source, quantity, and price.**
 - **Summary of cost analysis of Subcontracts over \$650K if no exception applies and subcontract cost or pricing data if thresholds exceeded (\$11.5M+ or 10%+ of total price)**



FAR Table 15-2 - Cost Elements

- **Labor - Contractor must provide:**
 - **A time-phased (e.g., monthly, quarterly, etc.) breakdown of labor hours, rates, and cost by appropriate category, and furnish bases for estimates**
- **Note: This where the contractor tells us “how and why” they bid the hours they did. It almost always includes judgmental factors**



FAR Table 15-2 - Cost Elements

- **Indirect Costs - Contractor must provide:**
 - **how they computed and applied indirect costs, including cost breakdowns. Show trends and budgetary data to provide a basis for evaluating the reasonableness of proposed rates. Indicate the rates used and provide an appropriate explanation.**
 - **Note: In proposals with major contractors, indirect cost data is often limited to a description and listing of the rates. The details behind the rates are contained in the contractor's forward pricing rate proposal submitted to DCAA & DCMA. We rely on DCAA & DCMA to analyze that data.**



Cost Analysis - Applications (Cont'd)

- **Cost Analysis Fact-Finding/Basis of Estimate (BOE) Evaluation**
 - Team effort
 - Source selection team plus auditors
 - Integrated Product Team (IPT)
 - Technical Evaluation
 - DCAA Audit – Adequacy of Accounting System and may cover material, rates, other costs, subcontracts, etc



Cost Analysis - Applications (Cont'd)

- **Cost Analysis**

- Review and evaluation of the separate cost elements and profit in a contractor's proposal and the application of judgment to determine how well the proposed costs represent what the cost of the contract should be
- Must be used when cost and pricing data are required
- May be used to evaluate information other than cost or pricing data



Cost Analysis - Applications (Cont'd)

- **Cost Analysis**

- Verification and evaluation of cost elements
- Evaluating the effect of the contractor's current practices on future costs
- Comparison of costs proposed by the contractor for individual cost elements
- Verification that the contractor's cost submissions are in accordance with applicable regulations
- Have all current, accurate, and complete cost data
- Analyze all make-or-buy decisions



Cost Analysis - Applications (Cont'd)

- **Cost Analysis Tools**

- DoD Weighted Guidelines – official tool for evaluating profit (reference DFARS 215.404-4)
- Cost Models – Excel, Access, etc.
- Learning Curve Model*
- Parametric Estimating*
- Statistical Sampling*
- Regression Analysis*

* These quantitative methods are discussed in Vol 2 of the Contract Pricing Guides

Weighted Guidelines Login

Pricing Software Tools



Cost Realism - Applications

- Cost Realism
 - A probable cost of performance for each offeror is calculated using:
 - DCAA inputs
 - Results of technical expert analysis of proposed hours, labor mix, material, travel, etc
 - Input on profit from CO
- The probable cost reflects the Government's best estimate of the cost for each offeror
- Probable cost is used in the best value determination
- When required, the probable cost is often used to assess a cost risk rating



Technical Evaluation - Applications

To: Maj Soandso

From: Mr. Smith

Subject: Technical Evaluation of XYZ Corp. Proposal

No Exceptions to proposed hours.

This is not a Tech Eval!

Signed



Mr. Smith



Technical Evaluation - Applications (Cont'd)

- **Does Technical Evaluation:**
 - Address types and quantity of labor, materials, and travel (not price; that's the CO's job)?
 - Provide sufficient rationale for all positions (Objective & Going-In)?
 - If proposed positions were accepted – why?
 - If reductions/increases are recommended – why?
 - Are recommendations summarized correctly to allow Gov't Pricing Positions to be developed?
 - Have all positions been evaluated (e.g. the evaluation of the places of travel and number of trips & people)?
 - Doubts about tech eval? - play “devil's advocate” with technical team on key issues



Sample Task Evaluation (Adequate)

DATE XX/XX/XX
PROPOSAL VOLUME: V, PART II PAGE 5-7 WBS X.14XX
LABOR CATEGORY: ENGR SUPT

<u>PROPOSED</u>	<u>GOING-IN</u>	<u>OBJECTIVE</u>
192	0	28

BASIS OF PROPOSAL: CONTRACTOR BASED ESTIMATE ON THE FOLLOWING METRICS DERIVED FROM FSD EXPERIENCE:

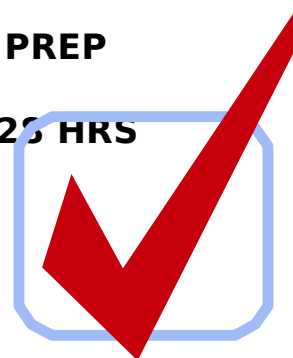
ICWG MTGS - 16 HRS PREP/ 24 HRS MTG/ 8 HRS FOLLOW-UP * 4 MTGS
=192 HRS

GOING -IN POSITION: DELETE ALL HOURS. THIS GROUP HAS NEVER BEEN REPRESENTED AT PREVIOUS ICWG MTGS.

OBJECTIVE POSITION: ATTENDANCE AT 1 MTG MAY BE NECESSARY BUT FSD METRICS ARE NOT APPLICABLE TO PRODUCTION. MTGS HAVE BEEN LASTING 2 DAYS WITH FEW ACTION ITEMS RESULTING. ALLOW 8 HRS PREP & 4 HRS FOLLOW-UP

8 HRS PREP/16 HRS MTG/4 HRS FOLLOW-UP * 1 MTG = 28 HRS

EVALUATED BY: _____
PROG MGR COORDINATION _____





Summary

- COs are responsible for purchasing supplies and services from responsible sources at fair and reasonable prices
- Use of various methods such as IPT technical evaluations means reaching mutual agreements and awarding good contracts in a timely and mutually professional manner
- Adequate documentation is important
 - Provides data to future source selection teams
 - Defends customer in claims/protests
 - Supports post-award audits, defective pricing findings
 - Provide information to investigative units, such as Inspector General and General Accounting Office



QUESTIONS?



Back Up Slides



SAF/AQC Memo 29 Nov 07

- **When contractor refuses to provide cost data, prior to award must have HCA determination and nine items must be reported to SAF/AQCK**
- **Three items specifically relate to determining and documentation of fair and reasonableness pricing**
 - Steps taken to attempt price analysis without requiring cost data
 - Actions taken by contracting activity to obtain data
 - Data used to determine price reasonableness and resulting determination



DPAP Memo dated 8 Jun 07

- **Revised procedures for PGI 215.4-Contract Pricing**
 - Emphasized requirement for cost and pricing data if above the TINA threshold and none of the exceptions apply
 - Emphasized that COs must obtain whatever information necessary to determine fair and reasonable price when TINA does not apply
 - Procedures and Guidance for TINA waivers
 - Procedures and Guidance for determining when to accomplish price analysis, cost analysis and technical analysis
 - Senior Executive review of exceptional case TINA waivers over \$100 million



DFARS PGI 215.4 Contract Pricing

- **Pricing Policy**

- Cost or Pricing data to be submitted if the procurement exceeds the TINA threshold and none of the exceptions apply
- When cost or pricing data not required and the CO does not have sufficient data to determine price reasonableness, the offeror is required to provide whatever information or data the CO needs in order to determine fair and reasonable prices
- Obtaining sufficient data or information is critical when item is determined to be commercial and the contract is being awarded on a sole source basis



DFARS PGI 215.4

Contract Pricing (cont'd)

- **Obtaining cost or pricing data**
 - Exceptions to cost or pricing data requirements. If an exception exists the CO is still required to determine price reasonableness
 - In making the price reasonableness determination the CO may require information other than cost and pricing data, including information related to prices and cost that would have been included in cost and pricing data



DFARS PGI 215.4

Contract Pricing (cont'd)

- **Commercial Items**

- COs must exercise care when pricing a commercial item, especially in sole source situations
- The fact that an item has been determined to be commercial does not prohibit the CO from requiring information other than cost and pricing data



DFARS PGI 215.4

Contract Pricing (cont'd)

- **Proposal Analysis**

- Objective of proposal analysis is to ensure that the final agreed-to-price is fair and reasonable
- Price Analysis should generally be performed on supplies or services that are not subject to TINA
- Cost Analysis is required when the CO cannot obtain sufficient information to perform a price analysis in accordance with FAR 15.404-1(b)
- Technical Analysis can assist in pricing items that are “similar to”, “of a type” or require “minor modifications”



AFFARS MP 5315.403-1 and AFMC FARS IG 5315.404-3

- **Exceptions for cost or pricing data requirements**
 - Requests for waiver of cost or pricing data shall include
 - Clear description of methods used to determine price reasonableness
 - When a subcontractor has refused to provide cost or pricing data to the prime include the following:
 - Contract type and number, RFP or purchase request number, including any supplemental number
 - Description of supplies or services being purchased
 - Any outside influences or time pressures
 - Complete company name and location
 - Complete description of data the contractor or subcontractor refuses to submit and basis for refusal
 - Names and titles of contractor/subcontractor personnel contacted and Government personnel making the contact
 - Summary statement of the approval action being requested



Excessive Pass-Thru Charges

- **Use the provision at 252.215-7003, Excessive Pass-Through Charges - Identification of Subcontract Effort, and the clause at 252.215-7004, Excessive Pass-Through Charges, in all solicitations and contracts (including task or delivery orders) except for—**
 - **(i) Firm-fixed-price contracts awarded on the basis of adequate price competition;**
 - **(ii) Fixed-price contracts with economic price adjustment, awarded on the basis of adequate price competition;**
 - **(iii) Firm-fixed-price contracts for the acquisition of a commercial item; or**
 - **(iv) Fixed-price contracts with economic price adjustment, for the acquisition of a commercial item**



Integrated Product Team (IPT) Pricing

- **Stakeholders**

- SPO (Program Management, Contracts, Financial Management, Engineering, Logistics, Property, QA)
- Contractor
- DCMA
- DCAA
- Users



IPT Pricing (Cont'd)

- **How Does the Process Work?**
 - **Significant up-front effort (labor intensive)**
 - **Team members need to understand how the process works**
 - **Need to establish model contract and terms & conditions early in the process**
 - **Concurrent proposal preparation/audit/fact-finding/evaluation**
 - **Requires up-front dedicated resources**
 - **Establish clear lines of authority (empowerment)**
 - Eliminates re-do loops
 - Establish a process for elevation to next level of authority when needed



Wage Determinations (WD)

- **The WD in and of itself may not constitute a fair and reasonable price for a given acquisition**
 - The wage and fringe benefit rates must be the minimum basis of a contractor's proposal for construction or services
 - A contractor's price is composed of the minimum wage and any additional cost factors associated with the particular acquisition (e.g. in order to obtain/retain employees a contractor may have to pay higher wages for personnel to work in an isolated location)

